Velesto Energy (VEB MK)

Catalysts Priced In On Outlook And Cash Conservation

HOLD (Downgraded)

Share Price	RM0.32
Target Price	RM0.35
Upside	+9.3%

Analyst(s)
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Highlights

- **2026 may be a reset year for the global JU rig industry.** While 2025 was a period of market softness, VEB's outlook should be supported by a recovery in global JU rig demand in 2026 as well as a definitive timeline for the N3 rig disposal. The latter may generate a special dividend of 3 sen. Although we think this was the key catalyst driving up the share price lately, we do not factor the special dividend in our valuation, as VEB has time until Dec 26 to consider whether to rechannel the funds to a potential sustainable new business growth.
- **Consolidation period may prompt take-profit position, barring any other major catalysts.** While we commend VEB's focus and success in creating this resilient balance sheet today, we believe all known catalysts have been fully priced in, while the upcoming 1H26 may reflect weaker utilisation rates as contract renewals are still in negotiation stages. Globally, JU rig consolidation is still happening. Borr Drilling is attempt to relist its shares publicly. Its implied EV/ EBITDA valuation is also 6-7x. We take the opportunity to downgrade VEB to HOLD, at an unchanged RM0.35 target price.

Analysis

- **2026: Better global JU demand, despite lower oil price expectations for 1H26.** JU rig utilisation was largely stable at 83-85% throughout most of 2025, despite the negative effects of Saudi Aramco's suspensions, and oil majors' caution in the face of economic uncertainty (which deferred some projects into the future). 2026 is expected to be a positive reset year for the JU rig industry, as oil majors had deferred projects timelines economic uncertainties. Hence, the resilient JU demand growth reflects the base of long-term upstream activities, and expectations of Saudi's suspended rigs returning to work. This is despite lower oil price expectations towards US$60/bbl for 1H26.
- **Naga 2 (N2): PCSB contract completed, further updates upcoming.** According to Westwood, N2 was last seen drilling for Northern Gulf Petroleum, before returning to Malaysia to complete its contract with Petronas Carigali (PCSB) which expires on Feb 26. Our channel checks also indicate that the N2 had recently arrived at Kemaman Port to execute 2-4 weeks of repairs. Taking into account that N2's special periodic survey (SPS) was completed in 2024, we assume the repair works are needed in preparation for another major contract which may potentially be another multi-year extension of the PCSB contract.

Key Financials

Year to 31 Dec (RMm)	2023	2024	2025F	2026F	2027F
Net turnover	1,215	1,360	829	750	714
EBITDA	360	579	436	371	345
Operating profit	157	334	232	152	124
Net profit (rep./act.)	99	208	180	119	101
Net profit (adj.)	82	205	180	119	101
EPS	1.0	2.5	2.2	1.4	1.2
PE (x)	32.1	12.8	14.6	22.1	26.1
P/B (x)	1.1	1.0	1.0	1.0	1.1
EV/EBITDA (x)	9.9	5.7	7.1	8.3	9.2
Dividend yield (%)	1.0	5.2	10.2	12.8	12.8
Net margin (%)	8.2	15.3	15.6	11.5	10.4
Net debt/(cash) to equity(%)	9.1	n.m	n.m	n.m	n.m
Interest cover (x)	10.0	8.4	225.0	n.m	n.m
ROE (%)	4.2	8.6	5.4	3.7	3.3
Consensus net profit	-	-	164	145	153
UOBKH/Consensus (x)	-	-	1.10	0.82	0.66

Source: VEB, Bloomberg, UOB Kay Hian

Stock Data

GICS Sector	Energy
Bloomberg ticker	VEB MK
Shares issued (m)	8,215.6
Market cap (RMm)	2,587.9
Market cap (US$m)	659.2
3-mth avg daily t'over (US$m)	2.1

Price Performance (%)

52-week high/low: RM0.33/RM0.13

1mth	3mth	6mth	1yr	YTD
12.5	28.6	70.3	65.8	14.5

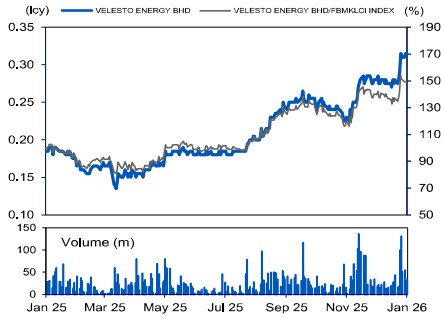
Major Shareholders

	%
Skim Amanah Saham Bumiputera	37.9
Yayasan Pelaburan Bumiputera	11.1

Balance Sheet Metrics

	%
FY26 NAV/Share (RM)	0.31
FY26 Net Debt/Share (RM)	0.03

Price Chart



Source: Bloomberg

Company Description

Velesto Energy (VEB), formerly UMW O&G, is the premier local jackup (JU) rig service provider in Malaysia. It operates a fleet of 6 JU rigs

- **Naga 3 (N3): Ready for delivery by Mar 26.** According to Westwood, N3 is now located in Global Offshore Marine Shipyard, undergoing both SPS and repairs until Mar 26. Therefore, we assume Mar 26 as the definitive timeline that Velesto Energy (VEB) is ready to deliver N3 to the client (to complete the sale of the rig for US$63m), although the client can contractually defer payments until the maximum of 90 days, or no later than 31 May 26.
- **Naga 4 (N4): Still at home.** Westwood published an update on N4 - the rig had completed the current scope of work in the TNAG (Vestigo Petroleum) well in Dec 25. The rig was towed to the Meransi-1 field (PCSB) by this month. We understand that the upcoming Vietnam job is still expected to commence in May 26. Having said, based on the information of "1H26 target start" as per the initial contract award announcement, we do not rule out a possible scenario for start-up to slip to end-Jun 26.
- **Naga 6 (N6) and Naga 8 (N8) outlook.** Westwood revealed that N6 had completed its scope of works by Dec 25, and its next plan of work is for a High-Pressure High-Temperature (HPHT) well. N6 is potentially being renegotiated beyond the current Feb 26 expiry. For N8, its current scope of work was successfully completed in Jan 26. Although N8 is now being chartered to serve Petronas' Indonesia activities (Ketapang), channel checks on a new market survey for another JU rig for Ketapang suggest that N8 renegotiation is possibly on the cards, but it is too early to ascertain whether the net change is positive.

Valuation/Recommendation

- **Downgrade to HOLD, with unchanged target price of RM0.35.** We keep our EV/EBITDA methodology at 7x, to reflect the group's financial resilience and commitment to reward shareholders in the current industry cycle. Our valuation implies 36x 2026F PE, but at an attractive 9% dividend yield assuming normal dividend payouts of 2.5-3.1 sen in our forecast years. Note that we currently do not assume special dividend payout from the disposal of the N3 rig, which can amount to another 3 sen DPS (9-10% special dividend yield), as VEB has until Dec 26 to consider rechannelling the funds into a new sustainable business growth.

Earnings Revision/Risk

- **Retain earnings forecasts.** Key risks are unexpectedly low utilisation and a sharper-than-expected fall in rig charter rates. Unexpectedly low dividend payout for a sustained period may also negatively impact investor confidence in the stock.

Environmental, Social, Governance Updates

Environmental

- **Greenhouse gas (GHG) emission compliance**. Achieved 15% reduction of carbon intensity of operational emissions, and is developing emission reduction guidelines
- **Safety. Loss time injury frequency (LTIF) was 0**. Awarded "Best HSE Program" by Petronas Carigali (PCSB) in Nov 2025

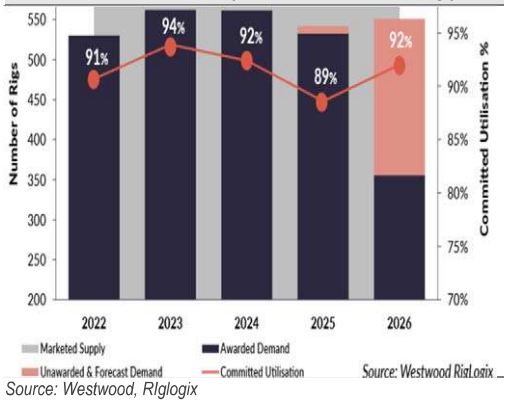
Social

- **Diversity.** 17% of total staff are female; 23% are non-Malaysian

Governance

- **Achieved 4.0 rating (FTSE4Good)** for governance & supply chain management.

Utilisation forecast (Global JU Industry)



Source: Westwood, Riglogix

JU Rig Market Review (2025) And Outlook

- **JU rig utilisation was largely stable at 83-85**% throughout most of 2025, despite the negative effects of Saudi Aramco's suspensions, and oil majors' caution in the face of economic uncertainty which deferred some projects into the future.
- Utilisation remains strong based on resilient long-term activity demand**. For 2026, Aramco is preparing to return units to work and launch new JU tenders.**
- **To quantify demand,** Westwood records 355 rig years in awarded demand for 2026 starts. A total of 42 unawarded tenders starting in 2026 have a combined duration verging on 67 years across all three main rig types – drillships (~9.2 years), semisubs (~14.6 years) and jackups (~42.8 years)
- **Global marketed supply** of JU rigs/drillships/semisubs stands at around 439/89/73 units**. In 2025, about 22 units were retired, whereby JU rig/drillships/semisubs were 8/8/6 units. Retirements of aged JU rigs** to persist
- **JU Day rates in 2025 showed a 20.6% decline** yoy due to market softness**. For** standard and premium JU rigs are expected to remain flat over 2026

Source: ESGian, Westwood

Assumptions - Daily Charter Rate (DCR) Basis

2025F6		2026F	2027F
US$/ RM forex rate	4.40	4.20	4.20
Utilisation	***75%***	***75%***	***75%***
DCR, US$'000	***110.0***	***99.0***	***93.0***
Rigs Revenue, RMm	758.8	683.0	641.6
Workover Revenue, RMm	60.0	65.0	70.0
Workover Revenue (%)	7.3	8.7	9.8
Daily OPEX, US$'000	33.0	32.4	31.4
- Utilised, US$,000	47.7	45.8	44.0
- Stacking, US$,000	24.3	25.5	26.7
Daily depreciation,	27.7	28.5	27.7
Daily finance cost,	0.5	0.9	1.1
Daily tax cost, US$,000	5.4	3.3	2.6
Profit Breakeven	**66.7**	**65.1**	**62.8**
Dividend/share, sen	**2.5**	**3.1**	**3.1**

Source: UOBKayHian Estimates

Profit & Loss

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Net turnover	**1,360**	**829**	**750**	**714**
EBITDA	579	436	371	345
Deprec. & amort.	246	255	263	283
EBIT	334	181	109	90
Associate contributions	0	0	0	0
Net interest income/(expense)	(69)	(2)	(6)	(1)
Pre-tax profit	**267**	**179**	**115**	**98**
Tax	(59)	(50)	(29)	(23)
Minorities	0	0	0	0
Net profit	**208**	**180**	**119**	**101**
Net profit (adj.)	205	129	86	75

Balance Sheet

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Fixed assets	2,366	2,092	2,129	2,146
Other LT assets	5	5	5	5
Cash/ST investment	248	351	398	376
Other current assets	315	345	322	311
Total assets	**3,063**	**2,865**	**2,754**	**2,597**
ST debt	178	113	203	293
Other current liabilities	294	250	234	226
LT debt	0	0	0	0
Other LT liabilities	2	2	2	2
Shareholders' equity	**2,572**	**2,865**	**2,754**	**2,597**
Minority interest	0	(21)	(41)	(62)
Total liabilities & equity	**3,063**	**2,865**	**2,754**	**2,597**

Cash Flow

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Operating	**602**	**317**	**332**	**300**
Pre-tax profit	267	154	119	91
Tax	(59)	(50)	(29)	(20)
Other operating cashflows	246	255	263	283
Investing	**0**	**0**	**0**	**0**
Capex (growth)	95	(117)	17	9
Others				
Financing	**(230)**	**(140)**	**(100)**	**(100)**
Others/interest paid	0	75	90	90
Net cash inflow (outflow)	**140**	**104**	**47**	**(22)**
Beginning cash & cash equivalent	132	248	351	398
Changes due to forex impact	(25)	0	0	0
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Others				
Financing	**(230)**	**(140)**	**(100)**	**(100)**

Key Metrics

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	31.8	29.6	39.2	39.7
Pre-tax margin	9.7	16.9	22.2	23.1
Net margin	9.0	14.9	19.7	20.8
ROA	2.0	4.1	4.6	5.2
ROE	3.2	6.3	7.0	7.9
Growth				
Turnover	37.9	69.2	42.4	56.8
EBITDA	0.5	15.0	28.1	42.9
Pre-tax profit	(54.4)	(2.4)	8.1	23.8
Net profit	(53.8)	(6.4)	4.5	21.4
Net profit (adj.)	(6.3)	3.2	11.7	16.1
EPS	20.2	24.0	38.5	60.8
Leverage				
Debt to total capital	40.4	40.2	40.4	40.2
Debt to equity	41.2	41.3	41.7	41.6
Net debt/(cash) to equity	23.4	23.6	25.9	26.2
Interest cover	5.8	7.0	7.6	8.2

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